

Waiver of Noncontributory Group Life Insurance Over \$50,000

The Internal Revenue Service classifies all life insurance coverage over \$50,000 as a fringe benefit subject to taxation. The amount of life insurance coverage is not taxable but rather the premium required to pay for the life insurance coverage is taxable. Chapter 62, P.L. 1994 permits members of the State retirement systems to waive their Noncontributory Group Life Insurance over \$50,000 to avoid a possible federal and State tax liability on that benefit. Any member who waives the Noncontributory Group Life Insurance, must waive the total amount of noncontributory coverage in excess of \$50,000. Waivers of partial amounts are not permitted. Even if a member waives the Noncontributory Group Life Insurance over \$50,000, there still may be a federal tax liability for those PERS and TPAF members who have Contributory Group Life Insurance coverage.

The cost of insurance coverage in excess of \$50,000 is determined using premium rates provided by the Internal Revenue Service. The premium rates are summarized below:

Annual Cost Per \$1,000 of Coverage

<u>Age</u>	<u>Premium</u>
Under 25	\$ 0.60
25-29	0.72
30-34	0.96
35-39	1.08
40-44	1.20
45-49	1.80
50-54	2.76
55-59	5.16
60-64	7.92
65-69	15.24
70 and above	24.72

Determining the Taxable Amount For Members who have both Contributory and Noncontributory Group Life Insurance

To determine the taxable amount, if any, add the amount of your noncontributory life insurance coverage to your contributory life insurance coverage (PERS and TPAF members only) then subtract \$50,000 from that total. The premium rates are then applied to the remaining life insurance amount. The premium costs for the life insurance are determined by the IRS based on your age (see chart) and the life insurance in excess of \$50,000. The premiums you pay for your contributory life insurance coverage (.005 of base salary for PERS, .004 for TPAF) are subtracted from the premium costs determined by the IRS. The remaining premium cost (if any) is the taxable amount and is added to your W-2 for that year.

Example:

- A PERS member is age 56 and has both contributory and noncontributory life insurance for a total coverage of three times salary (three and one-half for TPAF members).
- The member's annual base salary is \$60,000.
- The member's life insurance coverage totals \$180,000 (3 x \$60,000).
- The fringe benefit amount is determined by subtracting \$50,000 from the total benefit amount, \$180,000. That equals \$130,000.
- According to the IRS, the premium cost for an individual 56 years of age is \$5.16 per \$1,000 of coverage. The premium cost in this example is \$670.80 (130 x \$5.16).
- Under PERS, members pay premiums equal to .005 of base salary for contributory life

insurance coverage. In this example this member pays \$300.00 ($.005 \times \$60,000$) per year for life insurance coverage.

- The net taxable value of the premiums is \$370.80 (\$670.80 - \$300.00) and would be added to this member's W-2. This does not mean that the member would pay an additional \$370.80 in taxes, but that \$370.80 would be added to the member's taxable **wages** for the year.
- The member's noncontributory life insurance coverage equals \$90,000 ($1\frac{1}{2} \times \$60,000$). In this example the member could waive \$40,000 of noncontributory life insurance coverage because members are only permitted to waive noncontributory life insurance coverage **over** \$50,000. The net taxable value would be reduced to \$164.40 (\$464.40 - \$300.00).

Determining the Taxable Amount For Members who have Noncontributory Group Life Insurance Only

Members of the PFRS, SPRS, JRS and ABP do not pay for their life insurance coverage. They have noncontributory life insurance coverage. In addition, members of PERS and TPAF who have dropped their contributory life insurance coverage, have noncontributory life insurance coverage. To determine the taxable amount, if any, take the amount of your noncontributory life insurance coverage and subtract \$50,000 from it. The premium rates are then applied to the remaining life insurance amount. The premium costs for the life insurance are determined by the IRS based on your age (see chart) and the life insurance in excess of \$50,000. The premium cost of the remaining life insurance amount is the taxable amount and is added to your W-2 for that year.

Example:

- A PFRS or SPRS member is age 53 and has noncontributory life insurance of three and one-half times salary.
- The member's annual base salary is \$60,000.

- The member's life insurance coverage totals \$210,000 ($3\frac{1}{2} \times \$60,000$).
- The fringe benefit amount is determined (see above) by subtracting \$50,000 from the total benefit amount, \$210,000. That equals \$160,000.
- According to the IRS, the premium cost for an individual 53 years of age is \$2.76 per \$1,000 of coverage. The premium cost in this example is \$441.60 ($160 \times \2.76) and would be added to this member's W-2. This does not mean that the member would pay an additional \$441.60 in taxes but that \$441.60 would be added to the member's taxable **wages** for the year.
- The member's noncontributory life insurance coverage equals \$210,000 ($3\frac{1}{2} \times \$60,000$). In this example the member could waive \$160,000 of noncontributory life insurance coverage because members are only permitted to waive noncontributory life insurance coverage **over** \$50,000. The net taxable value would be reduced to \$0.00.

Waiving Noncontributory Group Life Insurance over \$50,000

You may waive your Noncontributory Group Life Insurance coverage by completing a waiver form and submitting it to the Division of Pensions and Benefits. The waiver form must be received by the Division of Pensions and Benefits **before** December 31 to be effective January 1 of the next calendar year. Once a waiver form has become effective it shall be irrevocable for the **entire** calendar year. The waiver will remain in effect until you submit a reinstatement form to the Division of Pensions and Benefits. The reinstatement will become effective the following January 1.

Waiver and reinstatement forms are available from the Division of Pensions and Benefits or from your employer.

If a waiver is in effect at the time of termination of employment or retirement, you will not be permitted to convert **any** amount of your Noncontributory Group Life Insurance coverage over \$50,000.

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Before completing the waiver, you should completely understand the ramifications of waiving your noncontributory life insurance. For more information, refer to *Internal Revenue Service Publication 525*.

The Division of Pensions and Benefits will notify you and your employer upon receipt of the waiver or reinstatement form.

Withdrawal from Contributory Group Life Insurance (PERS and TPAF only)

You may withdraw* from contributory life insurance coverage at any time by completing a *Notice of Withdrawal from Contributory Group Life Insurance* form which is available from the Division of Pensions and Benefits or your employer. Unlike waiving your noncontributory life insurance coverage over \$50,000, which can be reinstated annual-

ly, the withdrawal from **contributory** life insurance is **irrevocable**.

***Note:** New enrollees in PERS and TPAF are still required to retain the total amount of their contributory group life insurance during the first year of membership.

Amount of Death Benefits

	<u>Contributory</u>	<u>Noncontributory</u>
PERS	1½ x base salary	1½ x base salary
TPAF	2 x base salary	1½ x base salary
PFRS	none	3½ x base salary
SPRS	none	3½ x base salary
JRS	none	1½ x base salary
ABP	none	3½ x base salary

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